

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



January 18, 2002

CSSIN LETTER: 02-03

ALL IV-D DIRECTORS
ALL DISTRICT ATTORNEYS
ALL COUNTY ADMINISTRATIVE OFFICERS
ALL BOARDS OF SUPERVISORS

SUBJECT: FISCAL YEAR (FY) 2002-03 GOVERNOR'S BUDGET HIGHLIGHTS

The Department of Child Support Services (DCSS) is issuing this letter to transmit highlights of the proposed FY 2002-03 Governor's Budget.

The proposed FY 2002-03 Governor's Budget continues to reflect the Administration's commitment to adequately fund the Local Child Support Agencies. Despite the decline in the General Fund (GF) revenues and other demands on the GF, the administration maintained the child support program funding at projected expenditure levels. The Budget proposes expenditures of \$852 million (\$252 million GF) for DCSS Local Child Support Agency Basic Costs. As we mentioned at the last IV-D Director's meeting our goal during the budget negotiations was to maintain the program at current expenditure levels. This was accomplished by reducing the projected growth for FY 2002-03 due to increased collections, which generated a savings of approximately \$60 million (\$20 million GF). In addition we agreed to reduce program funding approximately 5 percent to bring our local administration budget more in line with our projected local administration expenditures for FY 2002-03. This reduction generated an additional savings of approximately \$44 million (\$15 million GF) for a total reduction of approximately \$104 million (\$35 million GF).

An overview of the Department's budget and the major changes from FY 2001-02 are summarized on the attached highlights. Also attached is a question and answer document. If you receive any press inquiries on the budget, please contact Mike Botula, Public Information, at (916) 464-5188 for a response.

DCSS-AD-2002-FSB-0001

Reason for this Transmittal

- ☐ State Law or Regulation Change
- ☐ Federal Law or Regulation Change
- ☐ Court Order or Settlement Change
- ☐ Clarification requested by One or More Counties
- ☒ Initiated by DCSS



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For energy saving tips, visit the DCSS website at
www.childsup.cahwnet.gov

CSSIN Letter: 02-03

January 18, 2002

Page 2

If you have any questions on the attached document, please contact Gary Fujii at (916) 464-5177.

Sincerely,

A handwritten signature in cursive script that reads "Jan Sherwood".

JAN SHERWOOD

Deputy Director

Administrative Services Division

Enclosures

cc: Margaret Pena, Executive Director
Child Support Directors Association

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

2002-03 GOVERNOR'S BUDGET

HIGHLIGHTS

The 2002-03 Governor's Budget for the Department of Child Support Services (DCSS) provides funding to promote the well being of children and the self-sufficiency of families through the delivery of first-rate child support services and collection activities that contribute to meeting the financial, medical, and emotional needs of children. Total funding is proposed to decrease by \$204.5 million (M), or 17.1 percent over the revised 2001-02 budget. The General Fund (GF) budget is proposed to decrease by \$162.8 M or 36.1 percent over the revised 2001-02 budget. Major changes are discussed on page 3, Program Highlights.

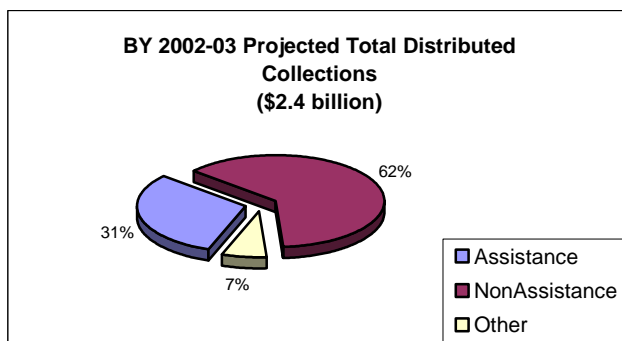
FUNDING SUMMARY

(dollars in thousands)

	FY 2001-02	FY 2002-03	Difference	Change
<u>STATE SUPPORT</u>				
State Support-General	\$ 29,173	\$ 27,047	\$ - 2,126	- 7.3 %
State Support-Contracts	<u>\$ 78,514</u>	<u>\$ 78,162</u>	<u>\$ -352</u>	<u>-0.4 %</u>
TOTAL, STATE SUPPORT	\$ 107,687	\$ 105,209	\$ -2,478	-2.3 %
General Fund	31,700	30,700	-1,000	-3.2 %
Federal Funds	75,815	74,387	-1,428	-1.9 %
Reimbursements	172	122	-50	-29.1 %
<u>LOCAL ASSISTANCE</u>				
Basic Costs	\$873,531	\$852,215	\$-21,316	-2.4%
Other Premises	<u>\$218,239</u>	<u>\$37,485</u>	<u>\$-180,754</u>	<u>-82.8%</u>
TOTAL, LOCAL ASSISTANCE	\$ 1,091,770	\$ 889,700	\$ -202,070	-18.5 %
General Fund	419,579	257,786	-161,793	-38.6 %
Federal Funds	327,722	283,957	-43,765	-15.4 %
Child Support Recovery Fund	344,164	347,636	3,472	1.0 %
Reimbursements	305	321	16	5.0 %
TOTAL, CHILD SUPPORT PROGRAM	\$ 1,199,457	\$994,909	\$ -204,548	-17.1 %
General Fund	451,279	288,486	-162,793	-36.1 %
Federal Funds	403,537	358,344	-45,193	-11.2 %
Child Support Recovery Fund	344,164	347,636	3,472	1.0 %
Reimbursements	477	443	-34	-7.1 %
AUTHORIZED POSITIONS	244.2	226.6	- 17.6	- 7.2 %

CHILD SUPPORT COLLECTIONS

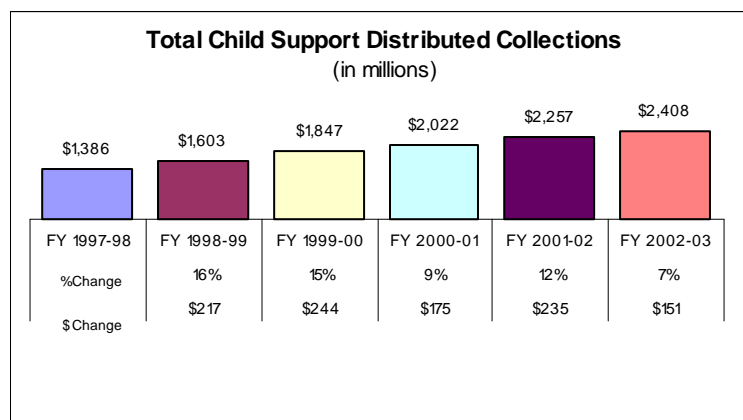
The Governor's Budget for FY 2002-03 projects distributed collections at \$2.4 billion (B), an increase by approximately \$151 M or 7 percent over the estimated FY 2001-02 collections. These collections are distributed in three ways: to the families as a child support payment, to the state as revenue to recover the assistance costs, and to other states. The distributed collections are categorized into three categories: nonassistance, assistance, and other.



NonAssistance Collections. FY 2002-03 proposes \$1.5 B, which is an increase of \$117.5 M over the estimated FY 2001-02 budget. These are collections that are made on behalf of families and sent directly to the families. They include basic collections (\$1.5 B), which are the ongoing efforts of the LCSA to collect child support payments from noncustodial parents and new premises (\$43.4 M), which are collections that are associated with new enforcement activities that are above the basic ongoing functions of the LCSA, such as Franchise Tax Board non-tax collections, and demonstration projects.

Assistance Collections. FY 2002-03 proposes \$740.1 M, which is an increase of \$20.9 M over the estimated FY 2001-02 budget. These collections go to repay the state and federal government for assistance payments.

Other Collections. FY 2002-03 proposes \$161.1 M, which is an increase of \$12.3 M over the estimated FY 2001-02 budget. These collections consist of assistance (\$12.5 M) and nonassistance (\$122.7 M) collections that are made on behalf of other states. Other collections also include the \$50 State disregard payment to families (\$25.9 M).



PROGRAM HIGHLIGHTS

State Support

The Governor's Budget for FY 2002-03 proposes a decrease of \$2.5 M (\$1.0 M GF) a 2.3 percent decrease from 2001-02 revised budget. Significant changes proposed for FY 2001-02 and FY 2002-03 are as follows:

- **California Child Support Automated System (CCSAS).** The Department is proposing to redirect \$4,254,000 of the \$4,400,000 in Pre-Statewide Interim Automated System (PRISM) contract dollars that is no longer needed for PRISM to the California Child Support Automated System (CCSAS) to fund contract oversight activities. These activities include providing oversight for system procurement, design, development, testing and implementation. The \$146,000 (\$50,000) is the difference between the redirected PRISM dollars and the CCSAS oversight funding.
- **Fiscal Reviews of Local Child Support Agencies.** An increase of \$400,000 (\$136,000 GF) in contract funding to complete the review and assessment of excess incentive funds in all Local Child Support Agencies, and upon completion, establish an ongoing audit function for administrative costs, collections, data reporting and reliability.
- **General Fund Reduction.** Due to the lower than anticipated GF revenues and other demands on the State GF, beginning in FY 2001-02 a reduction of \$965,000 (\$328,000 GF) and an additional reduction in FY 2002-03 of \$2,980,000 (\$1,013,000 GF) and 13.1 positions (12.4 personnel year) was made to the Department's State Operations budget for child support administration.
- **Other.** A decrease of 4.5 positions (4.3 personnel years) due to the expiration of 9.0 limited-term Policy positions effective 12/30/2001.

Local Assistance

Federal, state and county governments share the costs of operating expenses and the salaries and benefits of LCSA staff who administer the child support program. The federal government pays 66 percent of the total program costs and also pays a federal incentive based on the State's performance in five performance categories. State incentive dollars are used to fund the county share of costs that are not covered by the federal participation in the administrative costs and the federal incentive payment. The combined federal and state incentive payments equal 13.6 percent of total distributed collections.

Federal and state funds are used to finance the costs of a statewide-automated child support system, as required by federal law. The Franchise Tax Board (FTB) is the Department's agent for development of the statewide automation system, and the General Fund necessary to match the federal funds for development of the statewide system is reflected in FTB's budget.

Local Assistance (Continued)

The Governor's Budget for FY 2002-03 proposes a decrease of \$202 M (\$161.8 M GF), or 38.5 percent decrease over the estimated FY 2001-02 budget for funding local assistance costs. Significant changes proposed for FY 2001-02 and FY 2002-03 are as follows:

- **Alternative Federal Penalty.** An increase of \$5.5 M GF in FY 2001-02 due to the increase in administrative spending and a reduction of \$157.5 M GF in FY 2002-03 in anticipation of changes to the federal law that would provide relief from the Alternative Federal Penalty, which would otherwise increase to \$181.3 M.
- **Child Support Incentives and LCSA Basic Costs.** A decrease of \$10 M GF (\$30 M total funds) in FY 2001-02 to reflect the recovery of GF not currently allocated to the LCSA's in the current year. A reduction of \$10.5 M GF in FY 2001-02 and a corresponding increase to federal funds to reflect receipt of additional federal incentives due to the FFY 2000 Data Reliability Audit. An increase of \$14.4 M GF in FY 2002-03 and a corresponding decrease in federal funds due to the FY 2000 Data Reliability Audit and the phase-in of the five federal performance measures. In FY 2002-03 an additional \$25.3 M GF (\$74.4 M total funds) reduction to reflect realistic estimate of local administrative expenditures. The proposed funding reflects a 38 percent increase over actual 2000-01 expenditures.
- **Compliance Review.** A reduction of \$4.7 M (\$1.6 M GF) in FY 2002-03 due to shifting the funding of the Compliance Review Project to Basic Administration.
- **Foster Parent Training Fund.** A reduction of \$1.3 M GF in FY 2001-02 to reflect updated estimates and an additional reduction of \$1.0 M GF in FY 2002-03 to the Foster Parent Training Fund.
- **Program Suspensions.** Due the current budget situation, decline in California's GF revenues and other demands on the State GF, the following programs are in suspension.
 - **Improved Performance Incentives** A reduction of \$1 M GF in FY 2002-03.
 - **Health Insurance Incentive** A reduction of \$3.0 M GF reduction in FY 2002-03.
- **The following budget adjustments were made to reduce funding that is no longer needed for County EDP Conversions and Transitions to new LCSA's:**
 - **EDP Conversion and Enhancements.** A reduction of \$9.8 M (\$3.3 M GF) in FY 2002-03 as all counties complete conversion to the consortia interim systems by June 30, 2002.
 - **Backfill of FFP loss for County EDP Systems.** A reduction of \$2.5 M GF in FY 2002-03 and a corresponding increase in federal funds to reflect federal financial participation for county EDP maintenance and operations systems.
 - **Completion of County Transitions.** A reduction of \$1.6 M (.5 M GF) in FY 2002-03 as all counties are scheduled to complete transitions from the District Attorney's offices to new LCSA's in 2002-03.

**Department of Child Support Services
Proposed Governor's Budget for FY 2002-03**

Questions and Answers

LOCAL AGENCY ADMINISTRATIVE FUNDING

- Q. *How will the Governor's Budget proposed \$35.3 million General Fund (GF) reduction to child support county administration impact the county administrative and EDP M&O allocations?*
- A. The \$35.3 million General Fund reduction reflects a realistic expenditure level in FY 2002-03 for child support administration. The proposed reduction is composed of two parts: (1) not increasing GF in the 13.6% state incentive structure by the anticipated growth in child support collections resulting in a \$20.3 million GF savings; and, (2) reflecting a realistic estimate of local administrative expenditures for 2002-03 resulting in an additional \$15 million GF savings. Based on prior and current year expenditure patterns, there should be no impact to current county expenditure levels.
- Q. *How does the proposed \$35.3 million GF reduction reconcile to the detailed local assistance documents released with the Governor's Proposed Budget?*
- A. The Proposed Governor's Budget for the Department of Child Support Services (DCSS) is supported by detailed Local Assistance Administrative Costs and Collections Estimates, including a line item for local child support agency basic costs. This line item is composed of two parts – administration and EDP Maintenance and Operations (M&O). Application of the 13.6% of distributed collections formula would have generated an additional \$20.3 million GF due to the projected increase in collections in the budget year. However, due to current economic uncertainties, no increase was provided and therefore is not reflected in the budget detail. In addition, \$15.2 million was reduced from the current year appropriation level to reflect a more realistic projected local administrative expenditure level in the budget year. At the same time, EDP M&O expenditures are projected to continue in 2002-03 at the current year adjusted level of \$109.7 million.
- Q. *Are there any other adjustments in local child support administration?*
- A. There are no other adjustments to local child support agency basic costs, those costs funded from 13.6% of distributed collections. However, there are several adjustments to the overall child support administration item made for a variety of reasons. The more significant adjustments include:

- Compliance Review. A reduction of \$4.7 M (\$1.6 M GF) in FY 2002-03 due to shifting the funding of the Compliance Review Project to Basic Administration.
- Foster Parent Training Fund. A reduction of \$1.3 M GF in FY 2001-02 to reflect updated estimates and an additional reduction of \$1.0 M GF in FY 2002-03 to the Foster Parent Training Fund.
- Program Suspensions. Due to the current budget situation, decline in California's GF revenues and other demands on the State GF, the following programs are in suspension.
 - Improved Performance Incentives A reduction of \$1 M GF in FY 2002-03.
 - Health Insurance Incentive A reduction of \$3.0 M GF reduction in FY 2002-03.
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 - EDP Conversion and Enhancements. A reduction of \$9.8 M (\$3.3 M GF) in FY 2002-03 as all counties complete conversion to the consortia interim systems by June 30, 2002.
 - Backfill of FFP loss for County EDP Systems. A reduction of \$2.5 M GF in FY 2002-03 and a corresponding increase in federal funds to reflect federal financial participation for county EDP maintenance and operations systems.
 - Completion of County Transitions. A reduction of \$1.6 M (.5 M GF) in FY 2002-03 as all counties are scheduled to complete transitions from the District Attorney's offices to new LCSA's in 2002-03.

Q. *What assumptions are made around the receipt of federal performance incentive funding?*

A. The proposed Governor's Budget for FY 2002-03 assumes receipt of a projected \$40 million in Federal incentives compared to \$44 million in FY 2001-02. The Federal incentive funds are provided under the Public Law 105-200, the Child Support Performance and Incentive Act of 1998. The incentive formula was effective, and was phased in one third in Federal FY 2000, two thirds in Federal FY 2001, and 100 percent in Federal FY 2002. Funding is based on California's share of the total amount available nationwide (\$429 million in FY 2001, and 450 million in FY 2002). The Federal performance incentive is determined based on each state's collections base and performance on the five Federal measures. The Federal incentive structure is still in transition and new to all states.

Q. *What funding level is proposed in support of the single statewide automation system – the California Child Support Automation System (CCSAS)?*

- A. The Proposed Governor's Budget continues funding for development of CCSAS at \$12.9 million. This represents a decrease of about \$600,000 due to change in the federal matching formula from the 80 percent enhanced federal funding match to the standard 66% federal funding match. The funding in the DCSS budget reflects only the federal share for CCSAS. The General Fund match is budgeted in the Franchise Tax Board budget.

AUTOMATION PENALTY RELIEF

- Q. *What is the background on the federal penalty assumptions and why is the Governor anticipating changes to the current federal law?*

- A. California, other states, national organizations, and the National Governor's Association have been active in advocating for changes to the existing federal penalty structure. Current federal law assesses the alternative penalty based on a percentage of current spending for operation of the child support program. This is contrary to the goal of improving the child support program because it penalizes states that invest in making program improvements and automation changes to meet mandated federal requirements. The more a state invests in important program improvements and automation development, the more it must pay in penalties.

California and the others that advocate for changes in the penalty structure are not suggesting that federal penalties be abandoned; instead they advocate for a fair and equitable method in the application of penalties. The proposed changes to current federal law would: 1) change the formula for calculating the penalty to establish a fixed base year for expenditures against which to calculate the penalty at the year prior to entering penalties (For California, this would be FFY 1997.) 2) Provide states with an option to reinvest assessed penalties back into the child support program and automation efforts based on continued state expenditure growth in the program.

- Q. *Why is California operating under the federal automation penalty structure?*

- A. Due to the failure of the state's prior automation effort (SACSS), the Department became subject to federal fiscal penalties. Pursuant to Public Law 105-200, the Child Support Performance and Incentive Act of 1998, allows the Secretary of the Department of Health and Human Services to waive current penalties and impose an alternative penalty if states have made good faith efforts to meet the federal automation requirements.

Under the alternative penalty, the Department is penalized four percent of federal Child Support Enforcement Program administrative funds for Federal Fiscal Year (FFY) 1998, eight percent for FFY 1999, 16 percent for FFY 2000, 25 percent for FFY 2001, and 30 percent for FFY 2002 and each subsequent year, until the requirements are met.

CHILD SUPPORT COLLECTION TRENDS

- Q. *Why is the Department anticipating the year-to-year growth in collections to decline from 12% in FY 2001-02 to 7% in FY 2002-03?*
- A. The child support collections are projected to increase by \$235 million in FY 2001-02 and an additional \$151 million in FY 2002-03 to reach a projected level of over \$2.4 billion. This is a significant increase in the amount of collections going to families and the government. The decline in the percentage rate of growth is due to the collection base increasing and the most recent actual trend analysis. The budget year projections are based on actual monthly trend data for the most recent 24 months and reflects anticipated trends given the economic downturn.

STATE OPERATIONS BUDGET CHANGES

- Q. *How did the new California Department of Child Support Service (DCSS) budget fair as a result of the economic downturn?*
- A. The reductions taken by DCSS, necessitated by the economic downturn; however, funding directly in support of child support collections, including locate and intercept contracts, were maintained at essentially current funding levels. The reductions were taken in areas with the least impact to child support programs, allowing DCSS to continue uninterrupted with child support reform efforts.

The Governor's Budget for FY 2002-03 proposes a decrease of \$2.5 M (\$1.0 M GF) a 2.3 percent decrease from 2001-02 revised budget. Significant changes proposed for FY 2001-02 and FY 2002-03 are as follows:

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